93-553

Supreme Court, U.S.
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No.

IN THE

Supreme Court of the United States

October Term, 1993

TRANDES CORPORATION,

Petitioner,

v.

GUY F. ATKINSON COMPANY,

Respondent.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Fourth Circuit

PETITION FOR WRIT OF CERTIORARI

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October 4, 1993

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QUESTIONS PRESENTED

1. Whether the Court of Appeals erred by reversing the district court without addressing an independent ground relied on by the district court as the basis for its decision.

2. Whether Guy F. Atkinson Company's failure to object to a jury instruction that failed to incorporate a state statutory cap on punitive damages, and instead instructed the jury that it could award any amount it deemed appropriate violated Rule 51 of the Federal Rules of Civil Procedure.

PARTIES TO THE PROCEEDING IN THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

1. Trandes Corporation, plaintiff-appellee, which has no parent companies or subsidiaries.

2. Guy F. Atkinson Company, defendant-appellant.

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---

PETITION FOR WRIT OF CERTIORARI

Trandes Corporation, petitioner, prays that a writ of certiorari issue to review the decision of the United States Court of Appeals for the Fourth Circuit in *Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655 (4th Cir. 1993).

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Fourth Circuit is reported at 996 F.2d 665 (4th Cir. 1993), and is annexed to this petition at A-1 through A-24. The opinion of the United States District Court for the District of Maryland is reported at *Trandes Corp. v. Guy F. Atkinson Co.*, 798 F.Supp. 284 (D.Md. 1992) and is annexed to this petition at A-25 through A-36.

JURISDICTION

The decision of the United States Court of Appeals for the Fourth Circuit was filed on June 10, 1993. Appellee's timely petition for rehearing was denied on July 6, 1993 and this petition is filed within ninety days thereof. This Court's jurisdiction is invoked under title 28 U.S.C. Section 1254(1).

CONSTITUTIONAL PROVISIONS INVOLVED

The Seventh Amendment to the United States Constitution provides:

> In suits at common law, where the value in controversy shall exceed twenty dollars, the right to trial by jury shall be preserved, and no fact tried by a jury shall be otherwise re-examined in any court of the United States, than according to the rules of the common law.

Constitution of the United States, Amend. VII

STATUTORY PROVISIONS INVOLVED

Maryland Uniform Trade Secrets Act
Md. Code CL § 11-1203. Right to damages.

(a) *In general.* — Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation. . .

(d) *Exemplary damages.* — If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (a) of this section. (1989, ch. 598.)

The entire Maryland Uniform Trade Secrets Act, Md. Code CL § 11-1201 *et.seq.* is included in the appendix at A-38.

STATEMENT OF THE CASE

Trandes brought a diversity action under 28 U.S.C. § 1332 in the United States District Court for the District of Mayland against the Washington Metropolitan Area Transit Authority (WMATA) and Guy F. Atkinson Company (Atkinson) in which it was alleged that WMATA improperly disclosed and Atkinson improperly acquired and used the "Tunnel System", a trade secret computer program written by the president of Trandes. The jury returned a verdict in which it found that WMATA had breached its contract with Trandes, that WMATA had breached its fiduciary duty with Trandes, and that WMATA had misappropriated Trandes' trade secrets. The jury further found that Atkinson had misappropriated Trandes' trade secrets and that its conduct had been willful, wanton, and malicious. The jury awarded Trandes $17,400.00 in compensatory damages. Based upon an instruction that, "[T]he awarding of punitive damages is entirely and solely within your discretion. . . ." [and] the amount can be as large as you believe necessary to fulfill the purpose of punitive damages . . .", the jury awarded punitive damages against Atkinson in the amount of $750,000.00. After the jury returned its verdict, Atkinson objected for the first time that the court's instruction erroneously permitted the jury to award punitive damages in excess of the state statutory cap.

Atkinson filed a post-trial motion for remittitur on the punitive damages award. Atkinson argued that the district court erred when it instructed the jury that they could award punitive damages in as large as an amount as they felt necessary, because the Maryland Uniform Trade Secrets Act (the "Act"), Md. Code CL §11-1203(d), limited punitive damages to two

times compensatory damages. The district court denied the motion.

The district court held that it was denying Atkinson's motion for remittitur on two independent grounds. The first ground was the district court's finding of fact that Atkinson had misappropriated the Tunnel System prior to the effective date of the Act. Alternately, the district court held that there was a second, independent basis on which it was denying Atkinson's motion. The independent ground was that, if the limit imposed by the Act did apply, Atkinson's failure to object to the then erroneous instruction violated Fed.R.Civ.P. 51.

Atkinson appealed the decision of the district court to the United States Court of Appeals for the Fourth Circuit. WMATA did not appeal. On Appeal, the Fourth Circuit upheld the verdict that Atkinson had acted wantonly, willfully and maliciously. The court, however, held that the district court's finding of fact on the date of misappropriation was clearly erroneous and on that basis alone reversed the trial court's denial of Atkinson's motion for remittitur. The Petitioner respectfully represents that the Fourth Circuit failed to address the alternate, independent ground cited by the lower court (and argued on appeal) for the denial of Atkinson's motion for remittitur.

REASONS FOR GRANTING THE WRIT

I. THE FAILURE OF THE COURT OF APPEALS TO RULE ON THE DISTRICT COURT'S INDEPENDENT HOLDING IS ERROR

The independent ground which the Court of Appeals did not address was a holding by the district court on an important issue of federal law, i.e. that a jury instruction in a diversity

action which failed to incorporate the state statutory cap on punitive damages was an erroneous instruction, and the defendant's failure to object to that instruction violated Fed.R.Civ.P. 51. Because the Issue was properly before it, the Appellate Court erred by not addressing it.

A. The Decision of the Appellate Court Does Not Completely Reverse the District Court

By definition, an independent basis for the district court's decision is one which is sufficient, standing alone, to support the court's judgment even if the other ground for the decision is invalid. Because the district court held that Atkinson's Rule 51 violation was an independent ground to deny the remittitur, the court could have omitted the finding of fact that the Act did not apply from its opinion entirely. Had that been the case, the Appellate Court could not have reversed the district court without first addressing whether Atkinson's failure to object violated Rule 51 as the trial court held. In the present case, by failing to reverse the district court's independent Rule 51 holding and only addressing the finding of fact, the Appellate Court has not completely reversed the district court.

Where a Court of Appeals has failed to address an issue argued on appeal that would support the lower court decision, this Court has consistently vacated the judgment of the Court of Appeals. *See, e.g. Logue v. United States*, 412 U.S. 521, 530-33 (1973); *Barr v. Matteo*, 355 U.S. 171, 173 (1957). Where, as in the present case, the issue which the Appellate Court fails to address is cited by the district court as an independent basis for its holding, such a result is necessary. *Cf. City of Newport v. Fact Concerts, Inc.*,453 U.S. 247, 255 n.11 (1981). Where two independent grounds equally support the district court's decision, reversing only one leaves the decision still standing.

B. The Appellate Court's Failure to Address An Important Federal Question Has Deprived Petitioner a Fair Opportunity to Petition for Certiorari

It is universally recognized that only a marginal percentage of petitions for certiorari are granted by this Court. Rule 10.1 of the Rules of this Court makes clear that petitions will be granted only where there are important reasons, and sets forth the character of reasons that will be considered. Among those reasons are, "(a) When a United States court of appeals has rendered a decision in conflict with the decision of another United States court of appeals . . ." and "(b) when . . . a United States court of appeals has decided an important question of federal law which has not been, but should be, settled by this Court . . .". By not addressing the district court's independent Rule 51 holding, the Court of Appeals has deprived the petitioner a fair opportunity to demonstrate that one or more of the above reasons exist. If the Court of Appeals did not agree with the district court's holding, it was obligated to explain the basis of its ruling. Without the benefit of the Appellate Court's reasoning, the petitioner is without a record on which to base its petition for certiorari.

If, for example, the Court of Appeals believed that Rule 51 did not apply because there was no erroneous instruction, this would raise an important issue of federal law that has not been decided by this Court. As discussed below, several Circuit Courts have held that the Seventh Amendment guarantees the right to a jury determination of the amount of punitive damages in a diversity action. Whether the Seventh Amendment thus requires that jury instructions incorporate state statutory caps, or whether the trial court itself may apply such caps, is a question of significant federal importance. This is especially true in light of the recent trend of states to place statutory limits on punitive damage awards. *See, eg.* Va. Code. Ann. § 8.01-38.1.

Likewise, if the Court of Appeals believed that Rule 51 did not apply because the instruction was "plain error", it was obligated to so state. If this was the basis of the court's decision, it would create a conflict with the decision of another Circuit Court. As discussed below, the Ninth Circuit has held that there is no "plain error" exception to Rule 51, and several circuits have only recognized the plain error doctrine in dicta. A conflict among the circuits on such an important procedural Rule as Fed.R.Civ.P. 51 is the type of issue appropriate for review by this Court. It affects not only the parties to the instant case, but all litigants in federal court.

Without the Fourth Circuit addressing the Rule 51 issue, petitioner's chances of this Court granting certiorari are severely limited. Only a small number of petitions are granted when federal issues *are* properly addressed by the Appellate Court. The Court should therefore invoke its supervisory power where a Court of Appeals fails to address a federal issue properly before it. In *Dennison Manufacturing Co. v. Panduit Corp.*, 475 U.S. 809 (1986), the judgment of the United States Court of Appeals for the Federal Circuit was reversed where the court failed to address why Fed.R.Civ.P. 52(a) did or did not apply to the case before it. Likewise, in *Taylor v. McKeithen*, 407 U.S. 191, 193 (1972), the Court vacated the judgment of the Fifth Circuit because it failed to articulate its reasons for reversing the district court. As the Court stated, it was impossible to determine, without opinion, whether an important federal question was presented. The same dilemma is presented by the present case.

II. ATKINSON'S FAILURE TO OBJECT PRECLUDES IT FROM ARGUING ON APPEAL THAT THE DISTRICT COURT ERRED BY INSTRUCTING THE JURY THAT IT COULD AWARD ANY AMOUNT IN PUNITIVE DAMAGES

Notwithstanding the fact that the Appellate Court failed to address the district court's holding that Atkinson violated Fed.R.Civ.P. 51, this Court should address the issue without remand. *See, New York City Transit Authority v. Beazer*, 440 U.S. 568, 583 n.24 (1979). The issue has been argued both at the district court and appellate level, and the record is sufficient for the Court to render a decision. For the reasons discussed below, the judgment of the Fourth Circuit should be reversed.

A. Rule 51 Applies To This Case Because the Jury Instruction Was Erroneous

Rule 51 of the Federal Rules of Civil Procedure provides:

> No party may assign as error the giving or the failure to give an instruction unless he objects thereto before the jury retires to consider its verdict, stating distinctly the matter to which he objects and the grounds of his objection.

The requirement that a party object, of course, does not apply unless the instruction given to the jury is erroneous. The district court therefore necessarily found that its instruction to the jury on punitive damages was erroneous when it held that Atkinson violated Rule 51 by failing to object to it.

At trial the court instructed the jury that:

> The purpose of punitive damages is to punish a defendant for shocking conduct, and to set an example to deter it and others from committing similar acts in the future. Punitive damages are intended to protect the community and to be an expression of your indignation at misconduct, that being you, the jury, in this case.
>
> The awarding of punitive damages is entirely and solely within your discretion. You are not required to award punitive damages. Punitive damages are appropriate only, as I've indicated, for especially shocking and offensive misconduct.
>
> If you decide to award punitive damages, you must use sound reason in setting the amount. It must not reflect any bias or prejudice or sympathy toward the parties in this case, but the amount can be as large as you believe necessary to fulfill the purpose of punitive damages. . .

Based upon this instruction, the jury returned a verdict of $750,000.00, at which point Atkinson objected for the first time that the Maryland Uniform Trade Secrets Act limited punitive damages to two times compensatory damages. The district court correctly held that this untimely objection violated Rule 51. Under the Seventh Amendment, the district court erred by failing to incorporate the Maryland punitive damage cap in the jury instruction.

According to several circuit courts of appeals, the jury is required to assess the amount of punitive damages in a diversity case. *Defender Industries v. Northwestern Mutual Life Insurance Co.*, 938 F.2d 502, 507 (4th Cir. 1991); *O'Gilvie v. International Playtex, Inc.*, 821 F.2d 1438, 1447-48 (10th Cir. 1987); *McKinnon v. City of Berwyn*, 750 F.2d 1383, 1391-92

(7th Cir. 1984). As the Fourth Circuit held, "[T]he seventh amendment guarantees the right to a jury determination of the amount of punitive damages. . ." *Defender Industries* at 507.

Based upon this requirement of the Seventh Amendment, the Fourth Circuit had occasion to consider the role of the jury sitting in a diversity case where state law assigns the trial court a post-verdict role in assessing punitive damage awards. *See, Johnson v. Hugo's Skateway,* 974 F.2d 1408 (4th Cir. 1992). There the court held that because the jury is the sole fact finder in federal court, any post-verdict criteria imposed by state law on punitive damages must be incorporated in the instruction given to a federal jury. *Id.* at 1416. *See, also Browning-Ferris Industries of Vermont, Inc. v. Kelco Disposal,* 453 U.S. 247, 279 (1989). Following this reasoning, the district court in the present case should have incorporated Maryland's statutory cap on punitive damages in the instruction it gave to the jury. This statutory cap is a post-verdict criteria which the Seventh Amendment requires be applied by the jury. As the court held in *Hugo's Skateway,* "Although a *state* court in assessing punitive damages may apportion fact-finding responsibilities between judge and jury, we have held that in *federal* court the jury performs those functions". (emphasis in original). *Id.* The failure to instruct the jury to apply the cap was therefore error, as the district court held, to which Rule 51 required an objection.

Md. Code CL § 11-1203(d) provides that "the *court* may award exemplary damages. . ." for willful and malicious trade secret misappropriation. (emphasis supplied). In its opinion below, the Fourth Circuit correctly noted that its holding in *Hugo's Skateway* required that the *issue* of punitive damages be given to the jury. *Trandes Corp. v. Guy F. Atkinson Co.,* 996 F.2d 655, 666 (4th Cir. 1992). The Fourth Circuit failed

to address its own precedent, however, which also requires that the jury set the *amount* of punitive damages. In *Defender Industries* at 505 the Fourth Circuit held that federal courts may not give advisory instructions regarding the amount of punitive damages. Accordingly, where a state statute assigns the trial court the responsibility of applying a limit on punitive damage awards, a federal court in a diversity action must give that responsibility to the jury in its instructions.

B. Atkinson Cannot Rely On The Doctrine Of Plain Error To Excuse Its Failure To Object

As discussed above, the Court of Appeals' silence on the Rule 51 issue may imply its opinion that, notwithstanding Atkinson's failure to object, the district court committed "plain error". For the reasons cited below, Atkinson's failure to object cannot be excused on that basis.

1. Rule 51 has no "plain error" exception

The Circuit Courts are split on the issue of whether a party's failure to object to a jury instruction can be excused for "plain error". According to the Ninth Circuit, there is no such exception to Rule 51. *Bock v. United States*, 375 F.2d 479, 480 (9th Cir. 1967). Several other circuits only provide dicta of a "plain error" exception to Rule 51. *See, e.g., Rowe International v. J-B Enterprises*, 647 F.2d 830 (8th Cir. 1981); *A Standard of Review Primer*, 125 F.R.D. 319. This Court has likewise recognized this doctrine only in dicta. *See, City of Newport v. Fact Concerts, Inc.*, 453 U.S. 247, 256 (1981). Those courts that do recognize a plain error exception to Rule 51 agree that it is only to be used in rare instances. *See, e.g. Estate of Larkins v. Farrell Lines, Inc.*, 806 F.2d 510, 514 (4th Cir. 1986).

The better view on this issue, notwithstanding its lone voice,

is that of the Ninth Circuit. The language of Rule 51 is clear and uncompromising. There is no counterpart in Rule 51 or elsewhere in the civil rules to Rule 52(b) of the Federal Rules of Criminal Procedure, which specifically provides that courts may correct instances of plain error.

2. Assuming, arguendo, that a plain error exception exists, the error in this case is not plain error

Even if the Court were to hold that there is a plain error exception to Rule 51, the error in this case does not meet the definition. Plain error has been defined as the type of error that seriously affects the integrity or public reputation of the judicial system. *Osei-Afriyie v. Medical College of Pennsylvania*, 937 F.2d 876, 881 (3rd Cir. 1991).

Atkinson was found by the jury, the trial judge and the Appellate Court to be a malicious wrongdoer. The erroneous instruction that allowed the jury to return what they considered to be an appropriate punitive damage award is not the type of error that reduces public confidence in the judicial system. On the contrary, public confidence is enhanced when corporations that engage in egregious conduct are deterred by juries from repeating such behavior.

CONCLUSION

For all the foregoing reasons, petitioner Trandes Corporation respectfully requests that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Fourth Circuit.

Respectfully Submitted,

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Dated: Alexandria, Virginia
October 4, 1993

TRANDES CORPORATION,
Plaintiff-Appellee,

v.

GUY F. ATKINSON COMPANY,
Defendant-Appellant,

and

Washington Metropolitan Area Transit Authority,
Defendant,

No. 92-2182.

United States Court of Appeals,
Fourth Circuit.

Argued March 4, 1993.

Decided June 10, 1993.

John G. DeGooyer, Hopkins & Sutter, Washington, DC (Ronald A. Uitz, on brief), for appellant.

Christian D. Abel, Murray, Jacobs & Abel, Alexandria, VA, (Richard Murray, Murray, Jacobs & Abel, Alexandria, VA, Tobey B. Marzouk, Thomas M. Parry, Washington, DC, on brief) for appellee.

Before WILLIAMS, Circuit Judge,
SPROUSE, Senior Circuit Judge, and
VOORHEES, Chief United States District Judge for the Western District of North Carolina, sitting by designation.

OPINION

WILLIAMS, Circuit Judge:

The Trandes Corporation brought this diversity suit against the Guy F. Atkinson Company (Atkinson and the Washington Area Transit Authority (WMATA). Trandes alleged that WMATA improperly disclosed and Atkinson improperly acquired and used the "Tunnel System." The Tunnel System is a computer program written by Trandes's president, James Brusse, to perform survey calculations for the construction of subway tunnels. After a three day trial, the district court submitted five issues to the jury: (1) whether WMATA breached its contract with Trandes, (2) whether WMATA breached its fiduciary duties to Trandes, (3) whether WMATA misappropriated Trandes's trade secrets, (4) whether Atkinson misappropriated Trandes's trade secrets, and (5) whether Atkinson's actions had been willful, wanton, and malicious. The jury found for Trandes on each claim and awarded $17,400 in compensatory damages.[1] The jury also found that Atkinson's actions had been willful, wanton, and malicious and according awarded Trandes $750,000 in punitive damages.

After the jury returned its verdict in favor of Trandes, Atkinson moved for judgment as a matter of law. Atkinson also moved for a remittitur of punitive damages on the ground that any act of misappropriation occurred after the effective date of the Maryland Uniform Trade Secrets Act (MUTSA), Md.Com. Law II Code Ann. §§ 11-1201 to -1209 (Michie 1990), and was therefore subject to the statutory cap that limits punitive damages to twice compensatory damages, *id.*

[1]Trandes also asserted causes of action for copy-right infringement and intentional interference with contractual relations against Atkinson. The district court did not submit either of these claims to the jury. Trandes has not appealed from that decision. Also, WMATA has not appealed its adverse verdict.

§11-1203(d). The district court denied both motions. *Trandes Corp. v. Guy. F. Atkinson Co.*, 798 F.Supp. 284, 288-90 (D.Md.1992).

Atkinson now appeals from the district court's decisions, arguing that (1) Trandes's claim of trade secret misappropriation is preempted by § 301(a) of the Copyright Act, 17 U.S.C. § 301(a) (1988); (2) Trandes failed to prove that it possessed any trade secrets; (3) Trandes failed to prove that Atkinson ever acquired any of the alleged trade secrets; and (4) Trandes failed to prove that Atkinson's acquisition of the Tunnel System was improper. We reject these arguments and hold that the district court properly denied Atkinson's motion for judgment as a matter of law. We therefore affirm Atkinson's liability for trade secret misappropriation. Atkinson correctly argues, however, that the evidence does not support the district court's conclusion that Atkinson misappropriated Trandes's trade secrets before the effective date of the MUTSA. We therefore reverse the district court's denial of Atkinson's motion for a remittitur and remand for an assessment of punitive damages in accordance with § 11-1203(d) of the MUTSA.

I.

Atkinson first argues that § 301(a) of the Copyright Act preempts Trandes's claim for trade secret misappropriation. This argument raises a question of law, which we review de novo. *Taylor v. Local No. 7, Int'l Union of Journeymen Horseshoers*, 353 F.2d 593, 601 (4th Cir.1965), *cert. denied*, 384 U.S. 969, 86 S.Ct. 1859, 16 L.Ed.2d. 681 (1966).

[1,2] The district court did not explicitly rule on Atkinson's preemption argument, but instead held that the Copyright Act did not govern this case because Trandes did not timely register the Tunnel System for copyright protection. *Trandes*

Corp., 798 F.Supp. at 286 n. 1. In reaching this conclusion, the district court relied on § 411 of the Copyright Act, which provides that "no action for infringement of the copyright in any work shall be instituted until registration of the copyright claim has been made in accordance with this title." 17 U.S.C. § 411(a). (Supp. II 1990).

Although § 411(a) relates to the validity of Trandes's copyright claim, it has no bearing on the preemption of state law under § 301. Section § 411(a) merely requires a copyright owner to register its copyright before filing an action for copyright infringement. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 492 n.44, 104 S.Ct. 774, 815 n. 44, 78 L.Ed.2d 574 (1984). As nothing more than a jurisdictional prerequisite, § 411(a) does not affect the broad preemptive scope of § 301. Trandes cannot escape the preemptive effect of § 301 merely by failing to register its copyright in a timely fashion. *See Computer Assocs. Int'l, Inc., v. Altai, Inc.*, 775 F.Supp 544, 565 (E.D.N.Y. 1991) (failure to comply with requirements for copyright protection does not negate federal preemption), *aff'd in part, vacated in part, and remanded*, 982 F.2d 693 (2d Cir.1992). Consequently, the district court erred in relying on § 411(a). For the reasons set forth below, however, we agree with the district court's conclusion that the Copyright Act does not preempt Trandes's trade secret claims.

Section 301(a) of the Copyright Act provides that:

> all legal or equitable *rights that are equivalent to any of the exclusive rights within the general scope of copyright* . . . in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright . . . *are governed exclusively by this title* . . . [N]o person is entitled to any such right or equivalent right in any such

> work under the common law or statutes of any State.

17 U.S.C. § 301(a) (emphasis added); *but see* 17 U.S.C. § 301(b) (1988 & Supp. II 1990).[2] Trandes's claim for trade secret misappropriation seeks to protect rights in its computer program, which clearly comes within the "subject matter" of copyright. 17 U.S.C. § 102(a) (1988 & Supp. II 1990) (the subject matter of copyright is "original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device"); *see also M. Kramer Mfg. Co. v. Andrews*, 783 F.2d 421, 434-35 (4th Cir.1986) (computer programs are copyrightable); *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1249 (3d Cir. 1983) ("a computer program, whether in object code or source code, is a 'literary work' and is protected from unauthorized copying, whether from its object or source code version"), *cert. dismissed*, 464 U.S. 1033, 104 S.Ct. 690, 79 L.Ed.2d 158 (1984); 1 Roger M. Milgrim, *Milgrim on Trade Secrets* §2.06A[5][c], at 2-168 to 2-171 (1993). Thus, if the rights Trandes seeks to protect are "equivalent" to the exclusive rights reserved to the owner of a copyright, Trandes's cause of action for misappropriation of trade secrets is preempted.

The owner of a copyright has the exclusive right to (1) reproduce the work, (2) prepare derivative works based on the work, (3) distribute copies of the work, (4) perform the

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[2]Section 301(b) provides:

> Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to (1) subject matter that does not come within the subject matter of copyright as specified by sections 102 and 103 . . . or (3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106.

work publicly, and (5) display the work publicly. 17 U.S.C. § 106 (1988 & Supp. II 1990). Trandes predicated its unsuccessful claim for copyright infringement on Atkinson's unauthorized acquisition and use of its computer software. Because Trandes based its claim for misappropriation of trade secrets on the same conduct, Atkinson contends that the latter cause of action is preempted. To support its claim, Atkinson relies on the holdings of *Relational Design & Technology, Inc. v. Data Team Corp.*, 23 U.S.P.Q.2d (BNA) 1074, 1992 WL 97799 (D.Kan.1992); *Computer Associates*, 775 F.Supp. 544; and *Videotronics, Inc . v. Bend Electronics*, 564 F.Supp. 1471 (D.Nev.1983), *later proceeding*, 586 F.Supp. 478 (D.Nev. 1984).

[3,4] Atkinson takes the wrong approach by focusing its preemption analysis on the conduct alleged to support the two causes of action. To determine whether a particular cause of action involves right equivalent to those set forth in § 106, the elements of the causes of action should be compared, not the facts pled to prove them. As the Second Circuit held in *Harper & Row Publishers, Inc. v. Nation Enterprises*, 723 F.2d 195, 200 (2d Cir.1983), *rev'd on other grounds*, 471 U.S. 539, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985), "when a state law violation is predicated upon an act *incorporating elements beyond mere reproduction or the like*, the rights involved are not equivalent and preemption will not occur." (Emphasis added.). *See Also Computer Assoc. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 716 (2d Cir.1992) (following *Harper & Row* test; *but see Relational Design*, 23 U.S.P.Q.2d at 1075 (where defendants allegedly reproduced and/or sold copies of plaintiff's software programs without authorization, the facts alleged to support the misappropriation and copyright infringement claims were identical and the trade secret action was preempted); *Computer Assocs.*, 775 F.Supp. at 564 (where plaintiffs complaint stated that the act of copying the various elements

of its computer program constituted both infringement of copyright and misappropriation of trade secrets, the trade secret claim was preempted).[3] To avoid preemption, a cause of action defined by state law must incorporate elements beyond those necessary to prove copyright infringement, and must regulate conduct qualitatively different from the conduct governed by federal copyright law. *Harper & Row*, 723 F.2d at 200-01; 1 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 1.01[B][1] at 1-14 (1992). This test has become known as the "extra element" test. *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 795 F.Supp. 501, 505 (D.Mass.1992), *later proceeding*, 803 F.Supp. 487 (D.Mass. 1992). Therefore, we must examine and compare the constituent elements of a claim for copyright infringement and a claim for trade secret misappropriation.

To prove copyright infringement, a plaintiff must show (1) that it owned a valid copyright and (2) that the defendant copied original elements of its copyrighted work. *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, ____ U.S. ____, ____, 111 S.Ct. 1282, 1296, 113 L.Ed.2d 358 (1991). To prove misappropriation of a trade secret, on the other hand, a plaintiff must show (1) that it possessed a valid trade secret, (2) that the defendant acquired its trade secret, and (3) that the defendant knew or should have known that the trade secret was acquired by improper means. Md.Com.Law II Code Ann. § 11-1201(c)(1); *cf. Plains Cotton Coop. Ass'n v. Goodpasture Computer Serv.*, 807 F.2d 1256, 1262 (5th Cir.) (elements of trade secrets claim under Texas law), *cert. denied*, 484 U.S. 821, 108 S.Ct. 80, 98 L.Ed.2d 42 (1987).[4] The essential element of a mis-

[3]Although *Videotronics* does discuss preemption, it does not mention § 301 and ignores the specific requirements of that section.

[4]Although we conclude that this action is governed by the MUTSA, *see infra* Section III, the MUTSA was adopted " 'to codify and clarify the existing common law of trade secrets.' " *Optic Graphics, Inc., v. Agee*,

appropriation claim is the "abuse of confidence or impropriety in the means of procurement." *Space Aero Prods. Co. v. R.E. Darling Co.*, 208 A.2d 74, 84 (Md.), *cert. denied*, 382 U.S. 843, 86 S.Ct. 77, 15 L.Ed.2d 83 (1965). The first *Restatement of Torts* clarified this distinctive feature of the law of trade secrets:

> The significant difference of fact between trade secrets and processes or devices which are not secret is that knowledge of the latter is available to the copier without the use of improper means to procure it, while knowledge of the former is ordinarily available to him only by the use of such means. It is the *employment of improper means to procure the trade secret, rather than the mere copying or use*, which is the basis of [liability]. . . . . Apart from breach of contract, abuse of confidence or impropriety in the means of procurement, trade secrets may be copied as freely as devices or processes which are not secret.

Restatement (First) of Torts § 757 cmt. a (1939) (emphasis added). We agree with the Second Circuit that the breach of a duty of trust or confidentiality comprises the core of actions for trade secret misappropriation, and "supplies the 'extra element' that qualitatively distinguishes such trade secret causes of action from claims for copyright infringement that are based solely upon copying." *Computer Assocs.*, 982 F.2d at 717; *see also S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1090 n. 12 (9th Cir.1989) (trade secret misappropriation under California's UTSA is not preempted). Because Trandes's claim

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87 Md.App. 770, 591 A.2d 578, 585 n. 12 (quoting Peter B. Swann, Note, *Maryland Uniform Trade Secrets Act*, 49 Md. L.Rev. 1056, 1056 (1990)), *cert. denied*, 324 Md. 685, 598 A.2d 465 (1991). The MUTSA may have somewhat broadened the scope of the law of trade secrets, *see Optic Graphics*, 591 A.2d at 585 n. 13, but it did not alter the essential nature of the action.

for trade secret misappropriation requires proof of a breach of trust or confidence, § 301 does not preempt the claim.

II

Atkinson next challenges the sufficiency of the evidence to support the jury verdict in Trandes's favor. In its motion for judgment as a matter of law, Atkinson raised two points. First, Atkinson contended that Trandes did not prove that it possessed any trade secrets. Second, Atkinson contended that even if Trandes did possess trade secrets, the evience did not show that Atkinson ever acquired any of them. The district rejected Atkinson's arguments and denied the motion. *Trandes Corp.*, 798 F.Supp. at 288.

[5-8] We will not disturb the district court's decision "unless, without weighing the evidence or assessing witness credibility, we conclude that reasonable people could have returned a verdict only for defendants." *Cooper v. Dyke*, 814 F.2d 941, 944 (4th Cir. 1987). We must view the evidence in the light most favorable to Trandes, and it must give Trandes the benefit of all inferences which the evidence fairly supports. *Id.* A scintilla of evidence is not enough to sustain the verdict. *Austin v. Torrington Co.*, 810 F.2d 416, 420 (4th Cir.), *cert. denied*, 484 U.S. 977, 108 S.Ct. 489, 98 L.Ed.2d 487 (1979). Rather, there must be "sufficient evidence upon which a jury can properly proceed to reach a verdict." *Gairola v. Virginia Dep't of Gen. Servs.*, 753 F.2d 1281, 1285 (4th Cir. 1985). We review the decision of the district court de novo. *Id.*

A.

[9,10] Atkinson first argues that no reasonable jury could have concluded that Trandes possessed any trade secrets.

Maryland law defines a trade secret as

> information, including a formula, pattern, compilation, *program*, device, method, technique, or process, that:
>
> (1) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and
>
> (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Md.Com.Law II Code Ann. § 11-1201(e) (emphasis added). Prior to the adoption of the MUTSA, Maryland applied the *Restatement's* definition of a trade secret. *See Space Aero*, 208 A.2d at 79. The *Restatement* defined a trade secret as

> any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.

Restatement (First) of Torts § 757 cmt. b. The *Restatement* set forth six factors for the court to consider in determining whether given information constitutes a trade secret:

> (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficul-

> ty with which the information could be properly acquired or duplicated by others.

Id. "Although all of the Restatement's factors no longer are required to find a trade secret, those factors still provide helpful guidance to determine whether the information in a given case constitutes 'trade secrets' within the definition of the statute." *Optic Graphics*, 591 A.2d at 585. The existence of a trade secret is a conclusion of law based upon the applicable fact. *Operations Research, Inc. v. Davidson & Tailbird, Inc.*, 241 Md. 550, 217 A.2d 375, 379 (1966).

[11] Trandes argues that two aspects of the Tunnel System program constitute trade secrets: (1) the specific engineering formulas and methods of calculation embodied in the Tunnel System and (2) the structure and organization of the Tunnel System modules. Though both of the items could qualify as trade secrets, *see Integrated Cash Management Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 174 (2d Cir.1990) (program architecture); *SI Handling Sys., Inc. v. Heisley*, 753 F.2d 1244, 1261 (3d Cir. 1985) (empirical formulas), Trandes bore the burden of producing *some* evidence that these items met the definition of a trade secret. Trandes had to describe the subject matter of its alleged trade secrets in sufficient detail to establish each element of a trade secret. *See AMP, Inc. v. Fleischhacker*, 823 F.2d 1199, 1203 (7th Cir.1987) (failure to identify specific trade secrets precluded injunctive relief against threatened disclosure); *Julie Research Lab., Inc. v. Select Photographic Eng'g, Inc.*, 810 F.Supp. 513, 519 (S.D.N.Y. 1992) (plaintiff bears burden of defining or identifying in detail its trade secrets); *qad, Inc., v. ALN Assocs., Inc.*, 18 U.S.P.Q.2d (BNA) 1122, 1124, 1990 WL 93362 and 1990 WL 106440 (N.D.Ill.1990) (recounting how the persistent failure to identify trade secrets had resulted in dismissal of claim). Although it was not necessary for Trandes to disclose

all of the details of its trade secrets, it had to do more than merely allege that it had a "secret." *See Diodes, Inc. v. Franzen*, 260 Cal.App.2d 244, 67 Cal.Rptr. 19, 24 (19568).

(12) Here, Trandes averred nothing more than that it possessed secret "formulas." At trial, Trandes refused to provide any information whatsoever about the formulas but instead chose to rely on mere conclusory allegations.[5] Without some evidence of what the formulas were, the jury could not have differentiated them from "matters of general knowledge in the trade," *id.* and consequently Trandes did not sustain even a prima facie case of misappropriation. No rational jury could have concluded that the formulas were not generally known, that they had independent economic value, or that they were not readily ascertainable by proper means.

Trandes similarly failed to meet its burden of production with respect to the structure and organization of the Tunnel System modules. Trandes presented evidence that the Tunnel System had both a structure and an organization, but explained neither how the program was structured nor how it was organized. Without such evidence, no reasonable jury could have concluded that the structure and organization of the software was unique or was not generally known in the industry. Although

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[5]The following colloquy took place between defense counsel and James Brusse, president of Trandes:

Q: Are the formulas that are utilized to make survey calculations in your tunnel system modules unique to you?

A: Some are, sir.

Q: And what are those?

A: Do you want me to tell you?

Q: Yes.

A: I don't want to tell you. They're confidential, sir.

(Tr. at 69). After the district court admonished Brusse to provide more information, Brusse attempted to elaborate, but his testimony amounted to nothing more than a series of assertions that his formulas were "Different" and "unique." (*Id.* at 69-71).

the district court concluded that "the 'secret' is the combination and interrelationship of the six modules provided to WMATA, and the format of the Input Data Files used to run the System," and that "[t]here was sufficient evidence on which the jury could reasonably find . . . the design, use and interrelationship of these components was original and provided Trandes with a competitive advantage in the rapid transit industry," *Trandes Corp.*, 798 F.Supp. at 288, we cannot agree. Our independent review of the record failed to reveal any evidence to support these conclusions. Trandes may very well possess unique information in its formulas and in the structure and organization of its programs, but it failed to prove that fact at trial.[6]

B.

[13] Even though Trandes failed to prove that the structure and organization of the program qualified as a trade secret, it produced sufficient evidence for the jury to conclude that the Tunnel System software itself constituted a trade secret. We may affirm the district court's denial of judgment as a matter of law on this alternative ground.[7] *Dennison v. County of*

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[6]A plaintiff's general fear of disclosure cannot justify the failure to present sufficient evidence to identify its trade secrets. The MUTSA expressly imposes upon the courts the obligation to preserve the secrecy of an alleged trade secret by reasonable means," and provides explicit authority to accomplish that objective. *See* Md.Com.Law II Code Ann. § 11-1205 (authorizing protective orders in discovery, in-camera hearings, sealed records, and orders compelling parties to maintain secrecy).

[7]Although Trandes does not specifically argue in its appellate brief that the software constituted a trade secret, it did press the argument both before the jury and in its opposition to Atkinson's motion for judgment as a matter of law. Because Atkinson has chosen to address this issue on appeal, it has suffered no prejudice. *See Estate of Whitt v. Commissioner*, 751 F.2d 1548, 1558 (11th Cir.) (court should affirm on alternative ground only in the absence of prejudice), *cert. denied*, 474 U.S. 1005, 106 S.Ct. 523, 88 L.Ed.2d 456 (1985).

Frederick, 921 F.2d 50, 53 (4th Cir.1990), *cert. denied*, ____ U.S. ____, 111 S.Ct. 2828, 115 L.Ed.2d 998 (1991); *see also T. Harris Young & Assocs., Inc. v. Marquette Elecs., Inc.*, 931 F.2d 816, 823 (11th Cir.) (affirming judgment notwithstanding the verdict on grounds not relied upon by the district court), *cert. denied*, ____ U.S. ____, 112 S.Ct. 658, 116 L.Ed.2d 749 (1991).

[14] Trandes created the Tunnel System in a two-step process. Brusse first wrote in the computer language BASIC a unique set of instructions designed to execute specific survey calculations associated with the construction of tunnels. *See* 17 U.S.C. § 101 (1988) (defining computer program as "a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result."). This set of instructions is known as source code. *See Whelan Assocs., Inc. v. Jaslow Dental Lab., Inc.*, 797 F.2d 1222, 1230 (3d Cir. 1986) (describing source code), *cert. denied*, 479 U.S. 1031, 107 S.Ct. 877, 93 L.Ed.2d 831 (1987). Once the source code was completed, it was then translated or "compiled" into a computer-readable form known as object code. "Object code is the binary language comprised of zeros and ones through which the computer directly receives its instructions." *Computer Assocs.*, 982 F.2d at 698; *see also Sega Enters., Ltd., v. Accolade, Inc.*, 977 F.2d 1510, 1514 n. 2 (9th Cir. 1992) (description of compiling).

The source code can and does qualify as a trade secret. *See, e.g., University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 534-35 (5th Cir.1974); *Barr-Mullin, Inc. v. Browning*, 108 N.C.App. 590, 424 S.E.2d 226, 229 (1993). The unique set of computer instructions that Trandes developed is information that (1) is not generally known, (2) is not readily ascertainable by proper means, and (3) if acquired by competitors would improve their ability to compete with Trandes. *See* Md.Com.Law II Code Ann. § 11-1201(e)(1). The

source code is, to this day, completely secret. *See id.* § 11-1201(e)(2).

[15] Whether the object code is a trade secret is a more difficult question.[8] Atkinson first contends that the object code cannot be a trade secret because it does not derive independent economic value from its secrecy, and therefore fails the first definitional requirement of a trade secret. *See id.* § 11-1201(e)(1). This argument has no merit. Trandes generates most of its revenues by providing computer services to engineering firms and construction companies. Trandes receives raw data from its clients, processes the data with the Tunnel System software, and reports the results back to the clients. These services generate substantial revenues, enabling Trandes to earn more than one million dollars on a single contract. Armed with a copy of the object code, an individual would have the means to offer much the same engineering services as Trandes.[9] Because "other persons [could] obtain economic value" from the disclosure or use of the object code, a reasonable jury could conclude that the Tunnel System object code [d]erives independent economic value . . . from not being generally known."[10] *Id; cf. ISC-Bunker Ramo Corp. v. Altech, Inc.*, 765 F.Supp. 1310, 1323-26, 1333 (N.D.Ill. 1990)(object code

[8]This case presents an unusual set of facts. In the ordinary case, the owner of trade secret computer software will maintain the secrecy of the source code but freely distribute the object code. *See, e.g. Q-Co Indus., Inc. v. Hoffman*, 625 F.Supp. 608, 617 (S.D.N.Y. 1985) (program secret where source code secret, even though object code not secret). In such cases, the owner of the software cannot claim trade secret protection for the object code because its disclosure to the public destroyed its secrecy. In this case, however, Trandes maintained the secrecy of the source code *and* the object code, as we explain below.

[9]Brusse obtained specific promises from each of his licensees that they would not provide computer services to other parties.

[10]Similarly, the object code is "information which is used in [Trandes's] business, and which gives [Trandes] an opportunity to obtain an advantage over competitors who do not know or use it." *Restatement (First) of Torts* § 757 cmt. b.

is trade secret), *later proceeding*, 765 F.Supp. 1340 (N.D.Ill.1990); Robert C. Scheinfeld & Gary M. Butter, *Using Trade Secret Law to Protect Computer Software*, Rutgers Computer & Tech.L.J. 381, 383 (1991) (object code can be a trade secret).

[16] Atkinson next argues that the object code cannot be a trade secret because Trandes did not keep it secret, and it therefore fails the second definitional requirement of a trade secret. *See Md.Com.Law II Code Ann.* § 11-1201(e)(2) Section 11-1201(e)(2) requires the owner of trade secret information to undertake "efforts that are reasonable under the circumstances" to maintain the secrecy of its information. Atkinson asserts that the Tunnel System has been widely disclosed as a mass-marketed product and that its existence and its abilities are not secret. Atkinson relies heavily on the fact that Trandes once placed a two-inch advertisement for the Tunnel System in the back of an engineering periodical. The advertisement described in general terms the capabilities of the Tunnel System and offered a demonstration disk for $100. The demonstration disk did in fact contain an object code version of the Tunnel System, but was configured to operate in demonstation mode only. The advertisement generated six or seven inquiries, none of which resulted in the sale of shipment of a demonstration disk. Atkinson argues that these actions destroyed the secrecy of the Tunnel System.

Secrecy is a question of fact, *Lehman v. Dow Jones & Co.*, 783 F.2d 285, 298 (2d Cir .1986), and our review is limited to whether a rational jury could conclude that Trandes took reasonable precautions to keep the Tunnel System object code secret. Trandes took steps to ensure that its employees would not disclose or improperly use its computer programs. Trandes licensed only two complete versions of the Tunnel System object code and extracted promises from both recipients that they would neither copy nor transfer the program, nor use

the program for any purpose other than their own construction or engineering projects. *See J & K Computer Sys., Inc. v. Parrish*, 642 P.2d 732, 735 (Utah 1982) (distribution of computer program to a few customers does not extingish the secrecy of the program where distributed programs contained notices that the programs were for use by authorized licensees only); 1 Milgrim, *supra*, § 5.03[8][C], at 5-125 (trade secrets may be leased without destroying secrecy). Trandes also prevented unathorized access to both the in-house and licensed versions of the software by using a system of passwords. *See Com-Share Inc. v. Computer Complex, Inc.*, 338 F.Supp. 1229, 1234-35 (E.D.Mich. 1971), (passwords enhance secrecy), *aff'd*, 458 F.2d 1341 (6th Cir.1972). Finally, the evidence at trial demonstrated that, with the exception of Atkinson, no other unauthorized person ever obtained a copy of the software.

[17] On these facts, the jury could have reasonably concluded that Trandes undertook reasonable efforts to maintain the secrecy of the Tunnel System. Although Trandes may not have achieved absolute secrecy, "[a]bsolute secrecy is not essential." *Space Aero*, 208 A.2d at 82. It is enough that Trandes made it difficiult for others to acquire copies of the Tunnel System software through proper means. *Id.* The advertisement of the software, contrary to Atkinson's assertions, did nothing to compromise the secrecy of the object code. Although Trandes did give WMATA a single demonstration disk in contemplation of a licensing agreement, it did so only in confidence. Such limited disclosure does not destroy secrecy. *See, id.* at 82 ("A trade secret owner, however, does not abandon his secret by a limited public publication for a restricted purpose."); *see also Speedry Chem. Prods., Inc. v. Carter's Ink Co.*, 306 F.2d 328, 332 (2d Cir.1962) (trade secret owner may disclose his secret during licensing negotiations without destroying secrecy); *cf. Hoeltke v. C.M. Kemp*

Mfg. Co., 80 F.2d 912, 923 (4th Cir. 1935) (confidential relationship implied where plaintiff disclosed invention to defendant in contemplation of sale), *cert. denied*, 298 U.S. 673, 56 S.Ct. 938, 80 L.Ed. 1395 (1936). Viewing the evidence in the light most favorable to Trandes, the jury was entitled to conclude that the Tunnel System object code was the subject of reasonable efforts to maintain its secrecy.

Trandes put sufficient evidcence before the jury to justify a conclusion that the Tunnel System object code constituted economically valuable information and that Trandes took reasonable precautions to keep it secret. Because the object code meets the definitional requirements of both § 11-1201(e)(1) and (e)(2), it qualifies as a trade secret.

C.

[18] It is undisputed that Atkinson acquired and used the Tunnel System object code.[11] Atkinson nevertheless contends that its acquisition of Trandes's trade secret object code does not constitute misappropriation because it did not use the object code to compete with Trandes. Here, Atkinson ignores the language of the statute. The MUTSA does not require proof of competition, but only proof of improper acquisition or improper use. *See* Md.Com.Law II Code Ann. § 11-1201(c); *cf. Schalk v. State*, 767 S.W.2d 441, 449 (Tex.Crim.App.1988) (acquisition without use constituted theft of trade secrets), *aff'd* 823 S.W.3d 633 (Tex. Crim.1991), *cert. denied*, ____ U.S. ____, 112 S.Ct. 1763, 118 L.Ed.2d 425 (1992); *Computer Print Sys., Inc. v. Lewis*, 281 Pa.Super. 240, 422 A.2d 148, 154 (1980) (mere acquisition of computer programs through breach of duty of confidentiality creates liability); *Restatement (First) of Torts* § 757 cmt. c (mere disclosure

[11]Trandes does not argue that Atkinson ever acquired the source code. Indeed, Trandes contends that "[t]he 'source code' . . . was kept secured and never given to any firm or individual." (Trandes's Br. at 19.)

enhances risk of adverse use and may reduce value of trade secret). Consequently, Atkinson's improper acquisition and use of the object code constitutes a misappropriation in violation of the MUTSA.

D.

Atkinson next argues that its acquisition and use of the Tunnel System was not improper because it complied with the terms of WMATA's license. The license permitted Atkinson, as a contractor of WMATA, to use, the Tunnel System if WMATA obtained Trandes's express written approval. Atkinson admits that neither it nor WMATA sought or obtained Trandes's approval for the transfer of the software to Atkinson. Still, Atkinson argues that the written approval requirement was not a condition precedent to WMATA's right to transfer the software to Atkinson, and that even if the written approval requirement is a condition precedent, Trandes waived compliance.

Atkinson presented neither of these arguments to the district court and has therefore waived them on appeal. *See National Wildlife Fed'n. v. Hanson*, 859 F.2d 313, 318 (4th Cir.1988) ("we ordinarily will not consider issues raised for the first time on appeal"); *National Fidelity Life Ins. Co. v. Karaganis*, 811 F2d 357, 360 (7th Cir.1987) ("A ground for reversal may be presented for the first time on appeal only if it involves a question of jurisdiction or if there are exceptional circumstances requiring as a matter of justice that the waiver rule be set aside.").

III.

Finally, we address the district court's denial of Atkinson's motion for remittitur of the punitive damages award. *Trandes*

Corp., 798 F.Supp. at 290. At the close of the evidence, the district court submitted the issue of punitive damages to the jury and its instructions elicited no objection. The jury awarded compensatory damages in the amount of $17,400 and punitive damages in the amount of $750,000.

After the verdict, Atkinson moved for remittitur of the punitive damages award on the basis that the award of $750,000 exceeded the statutory cap, which, if applicable, would limit punitive damages to twice compensatory damages, or $34,000. Md.Com. Law II Code Ann. § 11-1203(d). Atkinson also contended that no punitive damages were warranted because Trandes failed to prove by clear and convincing evidence that Atkinson had willfully and maliciously misappropriated its trade secrets. Finally, Atkinson argued that under the MUTSA the imposition of punitive damages was an issue for the court, not the jury.

Sensing that its award of punitive damages was endangered, Trandes filed a motion under Federal Rule of Civil Procedure 15(b) to amend the pleadings to conform to the evidence. In its motion, Trandes asserted for the first time that the MUTSA did not apply to its trade secrets claim because the act of misappropriation was a continuing misappropriation beginning before July 1, 1989, the effective date of the MUTSA. 1980 Md. Laws 598 §§ 2(2) & 3. Atkinson opposed the motion on the ground that the evidence did not support a finding that it misappropriated Trandes's trade secrets before July 1, 1989.

The district court found that Atkinson engaged in a continuing misappropriation commencing before July 1, 1989, and, in accordance with the common law, imposed punitive damages in the amount assessed by the jury. *Trandes Corp.*, 798 F.Supp. at 289-90. The court found that clear and convincing evidence supported the jury's award. *Id.* at 289.

[19] We first address Atkinson's contention that the district court should never have submitted the issue of punitive damages to the jury but instead should have reserved the issue for its own determination. Md.Com.Law II Code Ann. § 11-1203(d) (punitive damages are to be awarded by the court). Although Atkinson correctly interprets the Maryland statute, it overlooks the fact that, in federal court, any award of punitive damages presents a factual question that must be resolved by the jury. *Johnson v. Hugo's Skateway*, 974 F.2d 1408, 1416 (4th Cir.1992) (en banc); *Defender Indus., Inc. v. Northwestern Mut. Life Ins. Co.*, 938 F.2d 502, 507 (4th Cir.1991) (en banc). Consequently, the district court properly submitted the issue of punitive damages to the jury.

[20] Next we address whether sufficient evidence supports the jury's finding that Atkinson willfully and maliciously misappropriated Trandes's trade secrets. The district court did not instruct the jury that Trandes must establish the basis for an award of punitive damages by "clear and convincing evidence," *Owens-Illinois, Inc. v. Zenobia*, 325 Md. 420, 601 A.2d 633, 657 (1992), but Atkinson failed to object to the court's instructions and thereby waived the "clear and convincing evidence" standard. Fed.R.Civ.P. 51. Nonetheless, the evidence is clear that Atkinson's actions were both willful and egregious. *See Fairfax Sav. F.S.B. v. Ellerin*, 94 Md.App. 685, 619 A.2d 141, 152-153 (intentional torts require proof of actual malice, which can be shown by gross or egregious conduct), *cert. granted*, 329 Md. 756, 621 A.2d 897 (1993); *cf. Zenobia*, 601 A.2d at 653 n. 21. As the district court pointed out, numerous Atkinson employees knew or had reason to know that Atkinson was not authorized to use the Tunnel System softward, and yet Atkinson modified the program to misrepresent that Atkinson was an authorized user. *Trandes Corp.*, 798 F.Supp. at 289. Atkinson employees also effaced Tunnel System printouts to conceal the fact that the program

belonged to Trandes. This evidence entitled the jury to conclude that Atkinson's misappropriation had been willful and malicious.

[21] Finally, we must address whether the statutory cap applies. The cap applies if the misappropriation occurred after July 1, 1989. The date of misappropriation is a question of fact, and we may set aside the district court's factual finding only if it is clearly erroneous. Fed.R.Civ.P. 523(a).[12] To support its finding of a continuing misappropriation, the district court identified only four pieces of evidence that could conceivably show that Atkinson acquired the Tunnel System before July 1, 1989. First, the Court mentioned the fact that the Tunnel System was available in WMATA's on-site trailer at the time that Atkinson began work on the project in 1988. Second, the court credited an employee's testimony that Atkinson was using the software as early as August 1989. To infer that Atkinson acquired the Tunnel System before July 1, 1989 requires conjecture and speculation, and the evidence is simply insufficient to support the district court's conclusion.

The remaining evidence cited by the district court similarly fails to support its finding. The district court relied on the testimony of an Atkinson employee that he joined Atkinson in June 1989 and "was introduced to the Tunnel System" by his supervisor. *Trandes Corp.*, 798 F.Supp. at 289. The same employee later made it clear, however, that he was not introduced to the software until May 1991. Finally, the district court relied on Atkinson's admission that since at least March 1989 its employees had used Tunnel System reports

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[12] Because the date of misappropriation is a factual question, it should have been submitted to the jury. Atkinson failed, however, to object to the omission of this issue from the special verdict form and thereby waived its right to a jury trial on the issue. Fed.R.Civ.P. 49(a). In accordance with Rule 49(a), the district court made its own finding. *Trandes Corp.*, 798 F.Supp. at 290.

"*generated by Atkinson* or provided to Atkinson by WMATA." *Id.* (emphasis added). It is uncontested that WMATA provided Atkinson's employees with Tunnel System reports as early as March 1989. The district court nonetheless inferred from the admission that Atkinson "generated" reports with the Tunnel System program as early as March 1989, and therefore must have acquired the software before March 1989. This single admission by Atkinson is, however, so laden with ambiguity that it cannot support the district court's conclusion.

Indeed, the remaining evidence strongly suggests the opposite conclusion. Atkinson's project engineer testified that he overheard an employee of WMATA offer the Tunnel System software to an Atkinson supervisor in March 1990, and that he later witnessed the WMATA employee transfer several disks to the Atkinson supervisor. Moreover, WMATA's survey coordinator testified that he first trained the Atkinson supervisor in the use of the Tunnel System on November 21, 1990, and the record before us contains no evidence that Atkinson generated any Tunnel System reports before January 20, 1991.

Although there may be a modicum of evidence to support the district court's conclusion that Atkinson acquired the Tunnel System before July 1989, our independent review of the evidence leaves us with a definite and firm conviction that a mistake has been made. *Friend v. Leidinger*, 588 F.2d 61, 64 (4th Cir.1978). The clear weight of the evidence indicates that Atkinson did not misappropriate the software until after July 1, 1989. *See O'Brien v. Papa Gino's of Am., Inc.* 780 F.2d 1067, 1076 (1st Cir.1986) (factual findings are clearly erroneous if against the clear weight of evidence). Thus, because the misappropriation ptook lace after July 1, 1989, Trandes's claim is subject to the provisions of the MUTSA, and the statutory cap applies. Md.Com. Law II Code Ann.

§ 11-1203(d). We therefore reverse the district court's denial of Atkinson's motion for remittitur of the punitive damage award, and remand for the district court to award punitive damages in accordance with § 11-1203(d).

IV.

In sum, we affirm the district court's denial of Atkinson's motion for judgment as a matter of law. Trandes's claim for trade secret misappropriation is not preempted by § 301(a) of the Copyright Act, and the jury could have reasonably concluded that Atkinson acquired Trandes's trade secret object code in violation of Maryland law. We reverse the district court's denial of Atkinson's motion for remittitur and remand for an award consistent with § 11-1203(d).

AFFIRMED IN PART, REVERSED IN PART, AND REMANDED.

TRANDES CORPORATION

v.

GUY F. ATKINSON COMPANY et. al.
Civ. No. Y-91-1698.

United States District Court,
D. Maryland.

Aug. 14, 1992.

MEMORANDUM

JOSEPH H. YOUNG, Senior District Judge.

A three day jury trial in this case was concluded on March 25, 1992. Defendant Washington Metropolitan Area Transit Authority ("WMATA") was found guilty of breach of contract, breach of fiduciary duty, and misappropriation of trade secrets. Defendant Guy F. Atkinson Company ("Atkinson") was found guilty of misappropriation of trade secrets. The jury awarded damages in the amount of $17,400 compensatory and $750,000 punitive.

Atkinson has filed a motion for judgment as a matter of law claiming that the alleged "misappropriated software", was not a "trade secret," thus plaintiff's claim is insufficient as a matter of law.[1] WMATA has filed a motion for remittitur of the com-

[1]Atkinson also contends that plaintiff's exclusive remedy in this case is under the Copyright Act, 17 U.S.C. § 301 et seq. Section 411 of the Copyright provides that "no action for infringement of the copyright in any work shall be instituted until registration of the copyright claim has been made." This case was commenced on June 19, 1991. Plaintiff registered for copyright protection on January 21, 1992. Thus, the Copyright Act does not govern the issues in this case.

pensatory damage award, and Trandes has filed a motion to amend the complaint to conform to the evidence.

FACTS

Trandes is the owner of a certain set of computer programs aimed at solving commonly encountered problems in the design and construction of rapid transit systems. These programs are arranged in "modules", and the modules are grouped together to form a system, known as the "Tunnel System." The Tunnel System is comprised of six modules, each of which is useful in a different area of tunnel construction. The computer programs comprising each of the modules are written in "object" or "machine" code, and are unintelligible unless used with computers.

The Tunnel System software receives input from data files that are designed specifically for the Tunnel System and are not useful for any purpose other than as a common database for the various modules of the System.

At trial, James Brusse, president of Trandes and creator of the Tunnel System software, testified that Trandes does not ordinarily license the use of its software, but instead will perform Tunnel System services for its clients and provide them with the results. In November of 1987, however, Trandes issued a license to WMATA to use the Tunnel System software. The licensing agreement placed strict requirements on use and dissemination of the software. WMATA was authorized to:

> [u]se [the System] for [its] own construction or engineering projects. . . . make archival copies for the sole purpose of backing-up [the] software and protecting [its] investment from loss. . .. [a]llow [its] contractor to operate any module only if it used for [Trandes'] projects and then *only with the expressed*

> *written approval of Trandes* of each contractor. (emphasis supplied).

The licensing agreement further provided that each of WMATA's contractors would be required to sign similar licensing agreements, "prior to operat[ing]" the System. The contractor's license would end when the contractor ceased doing business with MWATA.

Between 1988 and 1990, WMATA contracted with Atkinson to construct a section of the Washington Metro Green Line (the "Green Line Project"). An engineer employed by WMATA at the time of the Project, testified that a copy of the Tunnel System was kept in a trailer at the construction site and was available for use by anyone entering WMATA's trailer. Several witnesses testified that WMATA employees provided Atkinson employees with a users' manual, "Input Data Files", the Tunnel System password, and instruction on how to gain access to and use the System.

Anthony Ciaffoni, a field engineer employed by Atkinson testified that he was introduced to the Tunnel System software at the work site by his supervisor Robert Hultsman. Hultsman assured him that there was a licensing agreement between Atkinson and Trandes "somewhere," but alluded to possible impropriety, and cautioned him not to publicize the fact that the software was being used.

Ciaffoni worked for Atkinson on the Green Line Project from June, 1989 to August, 1991. Before leaving, he trained his replacement, Robert White, on software and discussed with White his belief that the software was being used without a license. White testified that Hultsman later offered him a copy of the software saying that "every company needed one." Atkinson employee Mamo Meaza testified that the software was in use when he began work with Atkinson in August 1989. Finally, there was evidence of a Tunnel System manual and

printouts found in Atkinson's possession, on which the name WMATA as authorized user, had been whited out and replaced with the name Atkinson.

The Jury found that WMATA breached the terms of its licensing agreement by permitting the Tunnel System modules to be used by Atkinson employees: that Atkinson misappropriated the trade secrets of Trandes by acquiring the Tunnel System and using it without authorization, and that Atkinson acted willfully, wantonly and maliciously.

TRADE SECRETS

In the current motion, Atkinson does not dispute that its employees used the Tunnel System software and Input Data Files without WMATA's consent. Atkinson contends that as a matter of law, the Tunnel System programs do not contain trade secret information, because (1) the computer programs comprising the modules of the system are written in "object code," and are unintelligible to even the most experienced computer hacker, and (2) Trandes has advertised and marketed the programs world wide.

[1] On a motion for judgment as a matter of law, the movant is entitled to judgment if there can be but one reasonable conclusion as to the verdict. Fed.R.Civ.P. 50. *See e.g., Wyatt v. Interstate & Ocean Transport Co.*, 623 F.2d 888, 891 (4th Cir.1980). Unlike on a motion for summary judgment, "the mere existence of a scintilla of evidence in support of the plaintiff's position will be insufficient; there must be evidence on which the jury could reasonably find for the plaintiff." *Gairola v. Virginia Dept. of Gen. Services.* When considering the motion, the evidence of the non-movant is to be believed, and all justifiable inferences are to be drawn in his favor. *Lovelace v. Sherwin-Williams Co.*, 681 F.2d 230, 243 n. 14 (4th Cir.1982); *Tights, Inc. v. Acme-McCrary Corp.*, 541 F.2d

1047, 1055 (4th Cir.), *cert. den.* 429 U.S. 980, 97 S.Ct. 493, 50 L.Ed.2d 589 (1976).

[2] A trade secret is defined as:

> any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.

Space Aero Products Co. v. R.E. Darling Co., 238 Md. 93, 208 A.2d 74 (1965)[2].

The evidence shows that, except through improper means, the Tunnel System trade secrets are not generally known. Brusse testified that in general Trandes performs Tunnel System services for its customers, and provides the "results." Trandes repeated rejected WMATA's attempts to purchase the Tunnel System source code, and licensed the System under the strict requirement that WMATA obtain Trandes' written approval before permitting the software to be used by an outside contractor. The language of the Licensing Agreement clearly reflects Trandes' intention to keep the System confidential.

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[2]As will be discussed *infra.*, Maryland Common Law provides the rule of law in this case. The Court takes note however, that the Maryland Uniform Trade Secrets Act provides a similar definition for trade secret:

> information, including a formula, pattern, compilation, program, device, method, technique, or process, that . . . [d]erives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use. . . .

Md. [CL] Cd.Ann.§ 11-1201 (1990).

Atkinson argues that the "secrets" of the Tunnel System are not readily ascertainable, because the programs comprising each module are written in "object code," a computer language that is unintelligible to human beings. Courts have routinely held that such things as computer programs and user reference manuals constitute protectable trade secrets. *See e.g. ISC-Bunker Ramo Corp. v. Altech, Inc.*, 765 S.Fupp. 1310, 1333 (N.D.Ill.1990) and cases cited therein. The fact that the computer programs comprising the modules of the Tunnel System were written in object code, does not change the character of this software as a trade secret. There was sufficient evidence on which the jury could reasonably find that while the components of the Tunnel System, i.e. the modules and the computer programs comprising each module, were written in object code and unintelligible to the average user, the design, use and interrelationship of these components was original and provided Trandes with a competitive advantage in the rapid transit industry. *See e.g., ISC-Bunker Ramo Corp. v. Altech, Inc.* 765 F.Supp. 1310, 1333-34 (N.D.Ill.1990); *Integrated Cash Management Services, Inc. v. Digital Transactions, Inc.*, 732 F.Supp. 370, 377 (S.D.N.Y.1989) ("[P]laintiffs have met their burden of demonstrating that the combination of the several modules, as well as the specific source code of each individual module, constitute[s] a trade secret. . . . ."); *O-Co. Industries, Inc. v. Hoffman*, 625 F.Supp. 608 (S.D.N.Y.1985) ("It is a well settled principle 'that a trade secret can exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process and operation of which, in unique combination, affords a competitive advantage and is a protectable secret.' " [cite omitted]).

The evidence shows that, except through improper means, the Tunnel System trade secrets were not generally known. Brusse testified that in general Trandes performs Tunnel System services for its customers, and provides the "results."

Trandes repeatedly rejected WMATA's attempts to purchase the Tunnel System source code, and licensed the System under the strict requirement that WMATA obtain Trandes' written approval before permitting the software to be used by an outside contractor. The language of the Licensing Agreement clearly reflects Trandes' intention to keep the System confidential.

There was evidence that Tunnel System advertised its Tunnel System program for sale to contractors in an engineering trade journal, offered "demonstration diskettes" to potential buyers, and sold "one Tunnel System module" to a tunnel contractor other than WMATA. Atkinson contends that this evidence destroys any secrecy, and reflects an intent not to keep the software confidential. The trade secret at issue in this case is not destroyed by the offer of certain modules for sale. As noted earlier, the "secret" is the combination and interrelationship of the six modules provided to WMATA, and the format of the Input Data Files used to run the System. The limited sale of "demonstration diskettes" that may or may not contain the same combination of modules, programs or functions that were provided to WMATA under the Licensing Agreement, and the sale of "one module' to another entity is insufficient to controvert the preponderance of evidence indicating that the software licensed to WMATA was intended to be kept confidential. Atkinson's motion for judgment as a matter of law will be denied.

REMITTITUR

1. Punitive Damages

[3] Atkinson contends that punitive damages should not be assessed in this case because Trandes has not met its burden of proving by clear and convincing evidence that Atkinson acted

willfully and maliciously. *Owens-illinois, Inc. v. Zenobia*, 325 Md. 420, 601 A.2d 633 (1992). The evidence shows that Atkinson acquired the Tunnel System Software, that several of Atkinson's employees including Hultsman, Ciaffoni and White, knew or suspected that the software was being used without a license, and that a Tunnel System Manual and printouts were found in Atkinson's possession with the name Atkinson substituted for WMATA as the authorized user. Based on these facts, a jury could reasonably find by clear and convincing evidence that Atkinson acquired and used the Tunnel System software intentionally and without legal justification or excuse. *See. e.g., GAI Audio of New York, Inc. v. Columbia Broadcasting System, Inc.*, 27 Md.App. 172, 340 A.2d 736 (1975).

Atkinson argues in the alternative that the jury award of punitive damages was excessive and contrary to law. Under the Maryland Uniform Trade Secrets Act ("MUTSA"), the issue of punitive damages is a matter for Court discretion, and an award of punitive damages may not exceed twice the award of compensatory damages. MD. [CL] Cd.Ann. § 11-1201 (1990). Atkinson contends that the Court erred by submitting the issue of punitive damages to the jury, and that the award of punitive damages exceeds the limitations imposed by the MUTSA. As will be discussed below, the MUTSA does not apply to this case, and the issue of punitive damages was properly submitted the jury.

[4] At the outset, however, the Court notes that defendants failed to make a timely objection at trial to the instructions and special verdict form submitted to the jury. Fed.R.Civ.P. 49 and 51. Federal Rule of Civil Procedure 51 provides that "[n]o party may assign as error the giving or failure to give an instruction unless he objects thereto before the jury retires to consider its verdict." Fed.R.Civ.P. 51. *Richmond, Va. v.*

Madison Management Group, Inc., 918 F.2d 438, 454 (4th Cir. 1990); *Sandberg v. Virginia Bankshares, Inc.* 891 F.2d 1112, 1122 (4th Cir.1989), *rev'd* on other grounds, ____ U.S. ____, 111 S.Ct. 2749, 115 L.Ed.2d 929 (1991). The failure to object provides an independent ground to reject Atkinson's argument.

[5] Atkinson contends that the jury award does not comply with the Maryland Uniform Trade Secrets Act, because the award exceeds the limitation on punitive damages imposed by the Act. MD. [CL] Cd.Ann. § 11-1203 (1990). Plaintiffs respond that the MUTSA does not apply because the misappropriation at issue began prior to July 1, 1989, the effective date of the Act.[3] Plaintiffs have also filed a motion to amend the Complaint to plead a cause of action for misappropriation of trade secrets under Maryland common law.

The evidence supports a finding that the misappropriation of the Tunnel System software was a continuing misappropriation that began prior to July 1, 1989. WMATA purchased the right to use the software in November, 1987. Atkinson began work with WMATA on the Green Line project in late 1988. A WMATA employee testified that a copy of the Tunnel System was kept in a trailer at the construction site and was available for use by anyone entering WMATA's trailer.

Ciaffoni began work with Atkinson as a field engineer in June, 1989. He testified that he was introduced to the Tunnel System by his supervisor, Robert Hultsman. Meaza, another Atkinson employee, testified that the software was in use when he began work in August, 1989.

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[3]The MUTSA is codified at § 11-1201 *et seq.*, Md.Code [CL] Ann. (Ch. 598, Acts 1989.) Pursuant to section 2 of ch. 598, Acts 1989, the Act does not apply to misappropriations that occur prior to the effective date of the act, or continuing misappropriations that begin prior to that date.

In response to Trandes' first round of interrogatories Atkinson states, "[f]rom March 1989 or earlier to the present, Tunnel System reports generated by Atkinson or provided to Atkinson by WMATA and others have been used by Robert Hultsman, Tony Ciaffoni, Robert White . . . ." and others. Based on these facts, and in accordance with Federal Rule of Civil Procedure 49, the Court finds that the continuing misappropriation at issue began prior to July 1, 1989, thus the MUTSA does not apply.[4]

[6-8] Under Maryland common law, the issue of punitive damages is generally a matter for the jury. *Derby v. Jenkins*, 32 Md.App. 386, 363 A.2d 967 (1976). Once an award of punitive damages has been made, the Court's function is to insure that the award complies with applicable law. *Johnson v. Hugo's Skateway*, 949 F.2d F.2d 1338, 1348 (4th Cir.1991). There need be no relationship between the amount of compensatory damages and the amount of punitive damages awarded. *D.C. Transit System, Inc. v. Brooks*, 264 Md. 578, 287 A.2d 251 (1971).

[9, 10] Punitive damages are awarded upon a showing that the defendants acted with malice, actual or implied, or with conscious disregard for the rights of others. *Gai Audio of New York, Inc. v. Columbia Broadcasting System, Inc., supra, H & R Block, Inc. v. Glenn B. Testerman*, 275 Md. 36, 338 A.2d 48 (1975) (holding that tortious conduct that is accompanied by either a deliberate intention to violate the rights of others constitutes actual malice or its legal equivalent.) *Seigman v. Equitable Trust Co.*, 267 Md. 309, 315, 297 A.2d 758 (1972) On the record before the Court, there is little doubt that Atkinson obtained and used the Tunnel System, with knowledge

[4]When a party fails to object to the contents of a special verdict form, the Court may decide any issues omitted from the form, in accordance with the judgment on the special verdict. Fed.R.Civ.P. 49.

both actual and constructive that Atkinson was not an authorized user. Atkinson's motion for remittitur of the punitive damages award will be denied.

2. Compensatory Damages

[11, 12] Defendant WMATA has filed a motion for remittitur of the compensatory damages award. A compensatory damage award will not be set aside on grounds of excessiveness unless it is against the clear weight of the evidence, is the product of erroneously admitted evidence, or will result in a miscarriage of justice. *Johnson v. Hugo's Skateway*, 949 F.2d 1338, 1247 (4th Cir.1991). The jury awarded $17,400 in compensatory damages. WMATA suggests that this figure was arrived at by multiplying $2,900 (cost per Tunnel System module) by six. WMATA argues that the first of the six modules comprising the Tunnel System, is a module "typically" provided by Trandes at no charge, and should not have been included in the jury's calculations.

The evidence adduced at trial shows that WMATA purchased six modules at a costs of $2,900 per module for a total cost of 14,500 (five modules), with the sixth one provided free. The evidence does not indicate, however, that the sixth module was "typically" provided at no charge as WMATA was the first and only purchaser of the Tunnel System software. Based on this evidence, the jury could reasonably return a verdict for Trandes. *Wyatt v. Interstate & Ocean Transport Co.*, 623 F.2d 888, 891 (4th Cir.1980). Accordingly, WMATA's motion for remittitur of the compensatory damage award will be denied.

MOTION TO AMEND

[13] Trandes seeks to amend its complaint to plead a cause of action under the Uniform Trade Secrets Act, and common

law. Plaintiff contends that the Maryland Uniform Trade Secrets Act does not apply to the facts of this case because the misappropriation at issue occurred before July 1, 1989, the effective date of the MUTSA. Rule 15(b), Fed.R.Civ.P. provides that a district court shall allow a post-trial motion to amend if the issues not raised in the pleadings have been tried by the parties' "express or implied consent." Fed.R.Civ.P. 15(b). *See also, Quillen v. International Playtex, Inc.*, 789 F.2d 1041, 1043-1044 (4th Cir.1986). For reasons set forth above, plaintiffs' motion to amend will be granted.

UNITED STATES COURT OF APPEALS
FOR THE FOURTH CIRCUIT

FILED
July 6, 1993

No. 92-2182
CA-91-1698-Y

TRANDES CORPORATION

Plaintiff-Appellee

v.

GUY F. ATKINSON COMPANY

Defendant-Appellant

and

WASHINGTON METROPOLITAN AREA
TRANSIT AUTHORITY

Defendant

On Petition for Rehearing with Suggestion
for Rehearing In Banc

The appellee's petition for rehearing and suggestion for rehearing in banc were submitted to this Court. As no member of this Court or the panel requested a poll on the suggestion for rehearing in banc, and

As the panel considered the petition for rehearing and is of the opinion that it should be denied,

IT IS ORDERED that the petition for rehearing nd suggestion for rehearing in banc are denied.

For the Court,
/s/ Bert M. Montague
Clerk

Subtitle 12. Maryland Uniform Trade Secrets Act.

§11-1201. Definitions.

(a) *In general.* - In this subtitle the following words have the meanings indicated.

(b) *Improper means.* — "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

(c) *Misappropriation.* — "Misappropriation" means the:

(1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(2) Disclosure or use of a trade secret of another without express or implied consent by a person who:

(i) Used improper means to acquire knowledge of the trade secret; or

(ii) At the time of disclosure or use, knew or had reason to know that the person's knowledge of the trade secret was:

1. Derived from or through a person who had utilitzed improper means to acquire it;

2. Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

3. Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

(iii) Before a material change of the person's position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

(d) *Person.* — "Person" means an individual, corporation, business trust, estate, trust, partnership, association, joint venture, government, governmental subdivision or agency, or any other legal or commercial entity.

(e) *Trade Secret.* — "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

(1) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and

(2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. (1989, ch. 598)

§ 11-1202. Misappropriation of trade secrets may be enjoined.

(a) *In general.* — Actual or threatened misappropriation may be enjoined.

(b) *Termination of injunction.* — Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.

Editor's note. — Section 2, ch. 598, Act 1989, provides that "this act does not apply to:

(1) Misappropriation of trade secrets occurring prior to the effective date of this Act; or

(2) With respect to a continuing misappropriation that began prior to the effective date, a continuing misappropriation that occurs after the effective date."

Section 3 of ch. 598 provides that the act shall take effect July 1, 1989.

(c) *Payment of royalty.* — In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited.

(d) *Affirmative acts.* — In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.

(e) *"Exceptional circumstances" defined.* In this section "exceptional circumstances" includes a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable. (1989, ch. 598).

§ 11-1203. Right to damages.

(a) *In general.* — Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation.

(b) *Items included.* — Damages under this subtitle may include:

(1) The actual loss caused by misappropriation; and

(2) The unjust enrichment caused by misappropriation that is not taken into account in computing actual loss.

(c) *Alternate measure of damages.* — In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.

(d) *Exemplary damages.* — If willful and malicious misappro-

priation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (a) of this section. (1989, ch. 598).

§ 11-1204. Award of attorney' fees.

The court may award reasonable attorney's fees to the prevailing party if:

(1) A claim of misappropriation is made in bad faith;

(2) A motion to terminate an injunction is made or resisted in bad faith; or

(3) Willful and malicious misappropriation exists. (1989, ch. 598.)

§ 11-1205 — Preservation of trade secret during action.

In an action under this subtitle, a court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval. (1989, ch. 598.)

§ 11-1206. Limitations.

(a) *In general.* — An action for misappropriation must be brought within 3 years after the misappropriation is discovered or by the exercise or reasonable diligence should have been discovered.

(b) *Continuing misappropriation.* — For the purposes of this section, a continuing misappropriation constitutes a single claim. (1989, ch. 598.)

§ 11-1207. Subtitle constitutes exclusive remedy.

(a) In general. — Except as provided in subsection (b) of this section, this subtitle displaces conflicting tort, restitutionary, and other law of this State providing civil remedies for misappropriation of a trade secret.

(b) *Exceptions.* (1) This subtitle does not affect:

(i) Contractual remedies, whether or not based upon misappropriation of a trade secret;

(ii) Other civil remedies that are not based upon misappropriation of a trade secret; or

(iii) Criminal remedies, whether or not based upon misappropriation of a trade secret.

(2) Nothing contained in this act may be applied or construed to waive or limit any common law or statutory defense or immunity possessed by State personnel as defined under § 12-101 of the State Government Article. (1989, ch. 598).

§ 11-1208. Application and construction.

This subtitle shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this subtitle among states enacting it. (1989, ch. 598).

§ 11-1209. Short title.

This subtitle may be cited as the "Maryland Uniform Trade Secrets Act". (1989, ch. 598.)

Cross reference. — See Editor's note to § 11-1201 of this article.

(2)

Supreme Court, U.S.
FILED
OCT 15 1993
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No. 93-553

IN THE

Supreme Court of the United States

OCTOBER TERM, 1993

TRANDES CORPORATION,

Petitioner,

v.

GUY F. ATKINSON COMPANY,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court of Appeals For The Fourth Circuit

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BRIEF FOR RESPONDENT IN OPPOSITION

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Maryland Uniform Trade Secrets Act, MD Code CL §11-1201, *et seq.* . . . . . *passim*

Miscellaneous:

Annotation, Instruction Mentioning or Suggesting Specific Sum as Damages in Action for Personal Injury or Death, 2 A.L.R.2d 454 (1948 & 1993 Supp.) 7

IN THE
SUPREME COURT OF THE UNITED STATES
October Term, 1993

No. 93-553

TRANDES CORPORATION,

Petitioner,

v.

GUY F. ATKINSON COMPANY,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Fourth Circuit

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BRIEF FOR RESPONDENT IN OPPOSITION

Guy F. Atkinson Company ("Atkinson")[1] submits that the true facts and procedural history of this case, as well as the applicable law, demonstrate that the petition for a writ of certiorari should be denied.

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[1] Respondent is a wholly-owned subsidiary of Guy F. Atkinson Company of California, a publicly-held company.

STATEMENT

Petitioner sued Atkinson in diversity, alleging a violation of the Maryland Uniform Trade Secrets Act ("MUTSA"), MD Code CL §11-1201, *et seq.*, Pet. App. 38a-42a, and the case was pled, tried and submitted to the jury as a MUTSA case. Punitive damages under the MUTSA are capped at twice the award of compensatory damages, MD Code CL §11-1203(d), Pet. App. 40a-41a, and petitioner's complaint requested punitive damages in accord with this statutory mandate. The district court instructed the jury that it could award punitive damages in its discretion, and did not disclose the existence of the cap or the amount of damages sought by petitioner. The jury found that Atkinson had misappropriated petitioner's trade secret and returned a verdict of $17,400 compensatory and $750,000 punitive damages. Thereafter, Atkinson filed a motion for judgment arguing, *inter alia*, that any punitive damages judgment must conform to the MUTSA cap. Contrary to petitioner, Pet. 3-4, Atkinson's motion did not object to the court's punitive damages instruction.

In denying Atkinson's motion, the district court found (i) that under Fed. R. Civ. P. 51, Atkinson's failure to object to the punitive damages instruction precluded it from raising the issue after verdict, and (ii) that the MUTSA and its punitive damages cap did not govern in any event, because the misappropriation had commenced prior to the effective date of the MUTSA. Pet. App. 31a-35a. On Atkinson's appeal to the United States Court of Appeals for the Fourth Circuit, petitioner argued that both findings by the district court were correct. In response, Atkinson made clear that it was not objecting to the submission of the punitive damages to the jury or to the court's exercise of its discretion not to advise the jury about the statutory cap, but

rather was arguing that any punitive damages judgment must conform to the MUTSA cap.

The court of appeals affirmed the judgment in favor of punitive damages, but reversed as to amount because (i) the evidence did not support the district court's finding that the misappropriation had predated the effective date of the MUTSA, and (ii) the MUTSA cap on punitive damages, therefore, applied. Pet. App. 21a-24a. Petitioner sought rehearing and set forth its arguments that the court of appeals (i) may have overlooked certain facts in reversing the district court's pre-MUTSA misappropriation finding and (ii) may have overlooked a point of law since its opinion allegedly had not addressed petitioner's Rule 51 argument. The court of appeals denied rehearing. Pet. App. 37a.

ARGUMENT

The Court Of Appeals Addressed All Arguments Before It. Petitioner's claim that the court of appeals erred by failing to address an independent ground relied on by the district court is baseless. In fact, the court of appeals addressed all grounds relied upon by the district court, as well as all arguments advanced by petitioner in support of affirmance. Specifically, the court of appeals affirmed the judgment in favor of punitive damages, but reversed the district court's erroneous finding that the MUTSA and its punitive damages cap were not applicable.[2] In any

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[2] *See* 996 F.2d at 666, Pet. App. 21a, addressing the "independent ground" portion of the district court's opinion holding that Atkinson was required, but failed, to object to the submission of the punitive damages issue to the jury. (In truth, Atkinson never contested the submission; it only argued that the jury verdict was advisory since the MUTSA says that "the court may" award exemplary damages.)

event, Petitioner concedes later in its petition that the court of appeals did address the submission issue. Pet. 10 ("[T]he Fourth Circuit correctly noted that its holding in *Hugo's Skateway* required that the issue of punitive damages be given to the jury."). It follows that, if the court of appeals found that submitting the punitive damages issue to a binding jury verdict was not error,[3] it is of no consequence on appeal whether Atkinson timely objected to that non-error.

Petitioner Is Raising Its "Important Federal Question" For The First Time In This Court. Petitioner now claims that the district court's failure to inform the jury about the MUTSA cap could be an error of constitutional proportions, which the court of appeals ignored, thereby depriving petitioner of a "fair opportunity" to petition for certiorari. Pet. 6-7. Petitioner suggests that whether the seventh amendment requires that federal jury instructions incorporate state statutory caps is an important, unresolved federal question. Yet, petitioner made no objection at trial to the district court's failure to mention the MUTSA cap in its instruction. If petitioner's own earnest arguments about Rule 51 are to be credited, it cannot object to this "erroneous" instruction after verdict, as indeed it did not in the district court or in the court of appeals. Nor did petitioner make any claim in either court respecting an alleged seventh amendment requirement that federal juries be informed about state law punitive damages caps. It follows that petitioner cannot raise these issues in this Court under the guise of invoking the Court's supervisory powers.

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[3] *But see Modine Mfg. Co. v. Allen Group, Inc.*, 917 F.2d 538, 542 (Fed. Cir. 1990) (where statute says "the court may" award exemplary damages, jury verdict finding of willful infringement is advisory only), *cert. denied*, 111 S.Ct. 2017 (1991).

The Punitive Damages Instruction Was Not Erroneous. Even if petitioner had properly preserved its argument, it could not prevail. Petitioner contends that the MUTSA cap is a post-verdict criterion that was required to be incorporated into the jury instructions. Pet. 10.[4] Yet, this concession itself dooms petitioner's own argument, since the proper post-verdict application of that criterion in this case renders any instruction omission immaterial. *See Wackenhut Applied Technologies v. Sygnetron*, 979 F.2d 980, 985 (4th Cir. 1992) (statutory cap is proper and necessary post-verdict review criterion to insulate punitive damages award against constitutional attack based on unbridled jury discretion) (*citing Hugo's Skateway*, 974 F.2d at 1415 n. 6); *Boyd v. Bulala*, 905 F.2d 764, 768 (4th Cir. 1990) (per curiam) (where jury's award exceeded a $750,000 compensatory statutory cap by $2 million, there is no need for new trial to fix jury instruction that allowed jury to consider loss of enjoyment of life, given remoteness of possibility that jury would not again award an amount greater than $750,000).

In any event, as petitioner concedes, there is no authority for the proposition that the seventh amendment compels instruction on a statutory cap. Indeed, the pertinent authority is contrary, because there is nothing "factual" about the application of a legislative mandate. Moreover, petitioner omits mention of pertinent Fourth Circuit authority, *Boyd v. Bulala*, 877

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[4] Petitioner relies on *Defender Industries v. Northwestern Mutual Life Ins. Co.*, 938 F.2d 502 (4th Cir. 1991) (federal court juries must set amount of punitive damages), and *Johnson v. Hugo's Skateway*, 974 F.2d 1408 (4th Cir. 1992) (because jury is sole fact finder in federal court, any post-verdict criteria imposed by state law and applied in state court, but not permitted to be applied in federal court post trial, must be incorporated in jury instructions).

F.2d 1191 (4th Cir. 1989), where the issue was whether compensatory and punitive damages verdicts in excess of the $750,000 Virginia statutory cap on medical malpractice damages should be limited to $750,000. The Fourth Circuit held that the seventh amendment does not bar post-trial applications of statutory caps:

> [I]t is not the role of the jury to determine the legal consequences of its factual findings. That is a matter for the legislature, and here, the Virginia legislature has decided that as matter of law damages in excess of $750,000 are not relevant. In so doing it has not violated the seventh amendment . . . . [O]nce the jury has made its findings of fact with respect to damages, it has fulfilled its constitutional function; it may not also mandate compensation as a matter of law.

Id. at 1196 (citations omitted). *See also Locas v. United States*, 807 F.2d 414, 418 (5th Cir. 1986) ("the applicability of the Texas statutory cap on malpractice damages is purely a legal issue which can be resolved without the need for factual proof."); *Davis v. Omitowoju*, 883 F.2d 1155 (3d Cir. 1989) ("a district court can correct or modify an unfettered verdict so as to comply with the [Virgin Island's statutory cap on noneconomic damages].").

Similarly, the district court had no obligation to inform the jury about petitioner's *ad damnum* clause, which specifically requested punitive damages in accordance with the MUTSA cap. *See Williams v. Nichols*, 266 F.2d 389, 394 (4th Cir. 1959) (Paul, J. concurring) ("There is no sound reason why the jury should be informed, either by counsel or the Court, of the damages named in the complaint[.]"). The prevailing view is that giving such information to the jury is

a matter within the trial court's discretion, but should be avoided as it tends to leave the impression that the maximum amount is the proper award. *See* Annotation, Instruction Mentioning or Suggesting Specific Sum as Damages in Action for Personal Injury or Death, 2 A.L.R.2d 454 (1948 & 1993 Supp.); *see also Allred v. Maersk Line, Ltd.*, 826 F. Supp. 965, 971 (E.D. Va. 1993) ("the Court has doubts about the wisdom of permitting any mention of the amount of damages sought[.]").

The Court Of Appeals Reached The Correct Result. Based on its false and tardy premise that the punitive damages instruction was erroneous, petitioner argues that there is no "plain error" doctrine allowing that error to be corrected, and that if there were, such doctrine should not apply. Implicit in this argument is the faulty assumption that the lack of a cap instruction is the "law of the case" and can, therefore, void the legislative mandate. Petitioner's contention lacks merit. Atkinson moved for judgment after verdict arguing, *inter alia*, that any punitive damages judgment must conform to the MUTSA cap. *See City of St. Louis v. Praprotnik*, 485 U.S. 112, 120 (1988) ("[T]he failure to object to an instruction does not render the instruction 'law of the case' for purposes of appellate review of the denial of a directed verdict or judgment notwithstanding the verdict."). Here, the court of appeals reviewed the applicability of the MUTSA, and reversed the district court's refusal to apply the MUTSA and its punitive damages cap. *See Salve Regina College v. Russell*, 499 U.S. 225, 229 (1991) (courts of appeals must conduct a *de novo* review of district courts' state-law determinations). Finally, even assuming that the omission of MUTSA cap information from the jury instruction was error, petitioner cites no authority for the proposition that such an error could void post-trial application of the MUTSA cap. Indeed,

authority holds that it is fundamental error for a trial court not to apply a clear punitive damages limitation. *See Korotki v. Goughan*, 597 F. Supp. 1365, 1378 (D. Md. 1984) (plain error exception to Rule 51 applies to allow a post-trial motion to strike a punitive damages award on the basis of municipal immunity).

CONCLUSION

The petition for a writ of certiorari presents no issue of sufficient importance to warrant this Court's review and the petition should, therefore, be denied.

Respectfully submitted,

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